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CIA/OER/S-06670-74

9 December 1974

MEMORANDUM FOR: M. Kay Thompson
Commerce Action Group
on the Near East
Department of Commerce

SUBJECT : Notes on the Iranian Oil Situation

The following comments are forwarded in response to your specific queries concerning material to be included in the briefing book for Undersecretary John K. Taber's chairmanship of a working group session early next year. Further inquiries may be addressed to [redacted] on IDS Code 143, Extension 5741.

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Iran-US Petroleum Trade

Iran in 1973 was the fifth largest supplier of oil to the US; the second largest supplier located in the Middle East. It accounted for 420,000 b/d, 6.8% of total US imports. This figure includes a small amount of products from third countries that were refined from Iranian oil. In 1974 Iran's role has been enhanced temporarily as a result of the Arab oil embargo that followed the October 1973 war and because of significantly lowered US crude imports from Canada. Iran probably will rank third for the year. Since mid-1974 Saudi crude supplies to the US have again surpassed those of Iran. In the third quarter of this year Iran ranked fourth as a supplier to the US. During that quarter Nigeria ranked first with an average of 825,000 b/d, Canada provided 728,000 b/d, Saudi Arabia 582,000 b/d, and Iran 498,000 b/d. Total US imports of crude averaged 4 million b/d between July and September.

Other Oil Markets

Iran ranked second as an oil supplier to Western Europe in 1973, providing 14% of imports -- about half

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the non-Arab total -- compared with Saudi Arabia's 23%. It was Japan's most important source of oil, the source of 32% of imports. In 1974 its position as a supplier to Western Europe and Japan probably has been enhanced as a result of the Arab oil embargo.

US Participation in the Consortium

American firms make up 35% of the consortium. The US companies Exxon, Standard of California, Texaco, Mobil, and Gulf, each have a 7% share in the consortium. As members of the consortium none own producing fields. The Iranian government in 1974 achieved 100% ownership of all production in the country.

Iranian Oil Policy

Tehran is attempting to maximize oil revenues which are being used to facilitate a rapid growth of the economy, including expansion of non-petroleum industries, to free Iran from dependence on oil as the only significant source of revenue. Iran looks to the US for much of the equipment and expertise needed to develop such alternatives, particularly the petrochemical industry. During the 1973-77 Development Plan, Tehran has targeted $6 billion for expenditure on industrial expansion in addition to $5 billion on oil and gas development. US firms can be

expected to be asked to design, provide, and install machinery and equipment and to help Iran market output from new industrial ventures.

Oil Earnings

Iran's oil receipts this year will jump to about $18.2 billion boosting the balance of payments surplus to some $9 billion. This revenue figure includes payments agreed to in November by the consortium to compensate Iran for recent retroactive settlements with Saudi Arabia and for expanded participation payments to the Gulf states. The oil companies which had been paying lower revenues per barrel to Iran while selling oil at prevailing Gulf prices, had for some time anticipated Iran's demands for this settlement.

Iran and OPEC

Iran is currently the second largest OPEC producer, although there is a considerable gap between its production and that of the ranking producer, Saudi Arabia. Iran's output currently stands at 5.9 million b/d and it has proved reserves of 60 billion barrels -- the third largest of the area. Production capacity at present is 6.5 million b/d. Production is not likely to be pushed beyond 7 million b/d as a result of conservation policy.

Iran desires to be recognized as the "leader" of OPEC, a position attained momentarily when, as a consequence of the Tehran agreement of 1970, posted prices made the first significant jump from a long standing $1.80 per barrel and established a precedent for subsequent skyrocketing of posted prices. To regain leadership Iran has now proposed a new "single price" concept which would do away with the divergence between market and posted prices. Tehran is pushing for a market price of $10.34/barrel with fixed discounts for the companies that produce the oil. That price would be the base on which future increases to reflect world inflation would be figured.

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